

DIVISION OF ECONOMIC POLICY, RESEARCH AND
LEGISLATIVE AFFAIRS

MARYLAND RESEARCH AND DEVELOPMENT
TAX CREDIT PROGRAM

ANNUAL STATUS REPORT
TAX YEAR 2004
TAX-GENERAL ARTICLE

SECTION 10-721(g)

Submitted by:

Maryland Department of Business and Economic
Development

January 2006

**MARYLAND RESEARCH AND DEVELOPMENT
TAX CREDIT PROGRAM STATUS REPORT
TAX YEAR 2004**

The Maryland Research and Development Tax Credit program was enacted during the 2000 session of the Maryland General Assembly and applied to tax years ending before December 31, 2004. In 2005, legislation was passed that reestablished the Maryland Research and Development Tax Credit and required the Department of Business and Economic Development (DBED) to submit a report to the Governor and General Assembly on the applicants certified for the R&D income tax credits and the amount of credits approved.

Program Summary

The statute requires that each firm wishing to receive tax credits apply for certification on or before September 15th for R&D expenses incurred in the preceding tax year. DBED is responsible for administering the certification process. After receiving certification, firms may then amend their 2004 returns and receive refunds. If a firm receives more R&D credits than it paid in taxes for 2004, the unused portion of the credit may be carried forward for up to fifteen years. Beginning in TY 2005, the carry-forward will be reduced from fifteen years to seven years.

The Maryland Research and Development Tax Credit Program includes two separate, but related, tax credits. One credit is calculated on a firm's average level of research; the other credit is calculated on a firm's increase in R&D expenditures over previous years.

Basic R&D Tax Credit- This credit is 3% of eligible R&D expenses that do not exceed the firm's average R&D expenses over the last four years. However, if the total amount of credits claimed by all firms exceeds \$3 million, then the Basic R&D tax credit will be prorated. Moreover, if there is money left over from the Growth R&D tax credit allotment, then this money will be added to the \$3 million.

Growth R&D Tax Credit- This credit is 10% of eligible R&D expenses that exceed the firm's average R&D expenses over the last four years. However, if the total amount of credits claimed by all firms exceeds \$3 million, then the Growth R&D tax credit will be prorated. Moreover, if there is money left over from the Basic R&D tax credit allotment, then this money will be added to the \$3 million.

In the fifth year of the Research and Development Tax Credit, DBED certified 108 firms to receive credits for research conducted in Maryland for their tax year ending in 2004. The 108 successful applicants reported \$919.7 million in Maryland eligible research and development expenses.

At the *nominal statutory rates* of 3% for the basic research credit and 10% for the growth credit, applicants would have received \$23.0 million in basic research credits and \$15.3 million in growth credits. However, the General Assembly established limits of \$3 million for each of the two R&D credit components because there was no reliable information on Maryland qualified research with which to predict application rates. The basic R&D credit was 7.7 times over subscribed and the growth credit was 5.1 times oversubscribed. These limits reduced the *effective rate* for the basic credit to 0.39 percent and the *effective rate* for the growth credit to 1.96 percent.

The applicants and information about the amount of credits for which they were certified are included in the attached appendices.